



Tukwila Village Conceptual Analysis

**Metrovation
August 2007**

Executive Summary

We propose a development plan to accelerate and focus the renewal efforts of the City of Tukwila for the site known as Tukwila Village. The concept features a mixed-use development with a public commons, retail, office, and residential anchored by a 9,000 square foot King County Library. More than just a series of buildings, our plan includes community building and leasing strategies, and pro-forma economic analyses which demonstrate how the development can be achieved.

The location of the Tukwila Village site at the intersection of Tukwila International Boulevard and South 144th Street is appropriate for serving the entire community. However, the demographics and market data make it unlikely that new development will occur in the near future. Low median incomes, a perception of high crime, competition from Southcenter, and high vacancy rates deter private investment at this time.

The design of the center is calculated to focus all the activity on the site around a large multi-purpose public commons. The second floor office creates a prominent facade along International Boulevard and complements the retail and restaurant uses on the ground floor, achieving critical mass, and using the land efficiently. By combining elevators, utilizing surface parking and sharing common facilities, the costs of the project are minimized. The residential portion of the site is designed to be built in phases if the market will not absorb all the units at once.

The plan relies on the concept of a *third place* - neither home nor work, the *third place* is where people choose to associate with friends and colleagues in a casual environment. This concept has been implemented in the revitalization of Crossroads Bellevue and Lake Forest Park Towne Centre, bringing a sense of community as well as commercial success for the tenants of the centers.

Creating a vibrant center in this environment requires cooperation from private, public, and non-profit sectors. The appropriate physical design and tenant mix must be implemented to focus the activity on the site and attract the right set of users, customers and neighbors. A non-profit or public organization brings the community into the center by actively managing the commons. The City and other public agencies locate facilities or programs around the commons, which complements the private and non-profit activities, while facilitating outreach and connection with citizens.

The preliminary financial analysis under current market conditions shows a small gap between the projected commercial income and expenses. The financing gap on the residential side is slightly greater, in both rental and for-sale housing scenarios. We present a set of suggestions about how these gaps can be bridged which include such activities as coordination with existing capital improvement plans, master leasing space, and supporting the public common areas.

In the context of the overall renewal of the Tukwila International Boulevard Corridor and existing residential programs, the Tukwila Village project can be both a means to achieve success, and a symbol of success. By combining a public relations effort with the completion of this pioneering development, the City can show residents, businesses, and investors that this place is worth their attention. This effort can help raise lease rates and sales prices for the Corridor, attract new businesses, and act as a catalyst for further development.

Introduction

In the Fall of 2006, the City of Tukwila contracted Metrovation to assess the redevelopment potential of the site located at the intersection of Tukwila International Boulevard and South 144th Street, known as Tukwila Village. Building from previous design proposals, a concurrent economic analysis by Gardner Johnson, and our experience in similar areas, we developed a concept for a Tukwila Village. The goal was to create an economically viable project under current market conditions, while acting as a catalyst for private investment and strengthening the community.

Because of the significant benefit to the entire Tukwila International Boulevard (TIB) corridor and the City as a whole, this project has substantial opportunity for public-private-nonprofit partnerships. As part of a comprehensive strategy of redevelopment, we propose ways that all three sectors can work together on this site. More than simply a physical design, our plan includes image building, leasing and community organizing strategies that are intrinsic to the success of the project.

This report includes the conceptual plan, schematic drawings, an area analysis, a development strategy, and pro forma analysis using our best estimate of expense and income data to demonstrate the financial dimensions of the project.

Prior to Metrovation's involvement, various other concepts for the site had been proposed, including a larger mixed use development and a townhouse development with street-level retail. Our approach builds on the previous work but focuses more precisely on creating a "sense of place" to benefit the residents, enhance the community, and spur additional development. The project is fundamentally about changing the community, an additional element that goes hand in hand with the City's other efforts to improve the area.

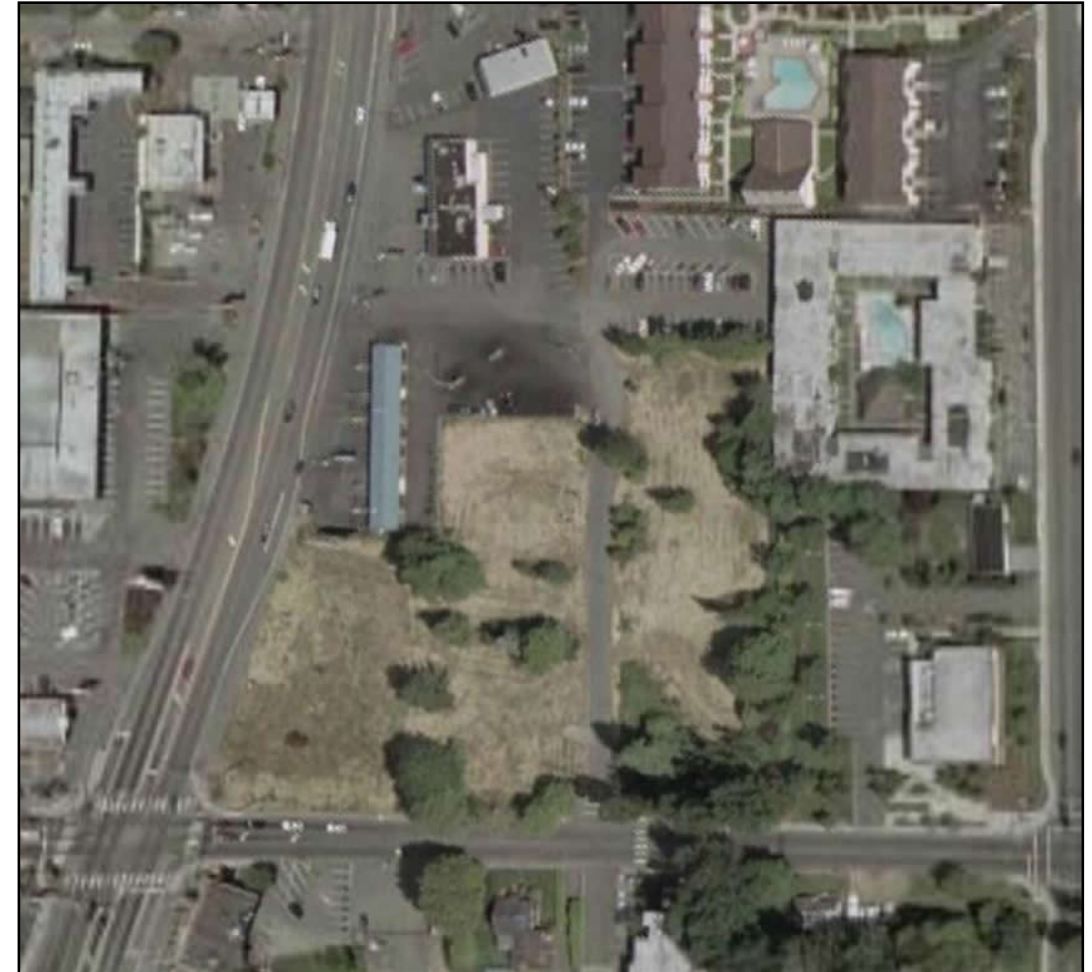


Figure 1: Aerial photo of Tukwila Village site; the existing Foster Library is in the lower right hand corner.

Context

While we are specifying a "pioneer" project to influence the market and transform the surrounding community, it is important that the project respond to and reflect the context in which it is developed. We looked at the demographics, market forecasts, natural features, transportation networks and geographic location of the site, as well as the current and planned investment by the City in the Tukwila International Boulevard corridor.

The market analysis firm, Gardner Johnson, looked at the current TIB corridor demographics and market factors and then projected demands for housing, office and commercial space. This "market snapshot" gives an idea of what sort of development might occur over the next few years without any intervention or change in the underlying economics.

The report is less than optimistic about the market along Tukwila International Boulevard. It specifically highlighted four major impediments to attracting private development to the corridor:

- area residents have lower than average median incomes;
- there is a perception of poor public safety and high crime;
- the presence of Southcenter precludes any major/regional retail development in the area; and
- high office vacancy rates will deter investment in new office buildings along TIB.

This combination of factors leaves a "gap" between the market value of projects along TIB and what it would cost to build them. Until there is a reasonable rate of expected return, a private real estate investor will not develop the site.

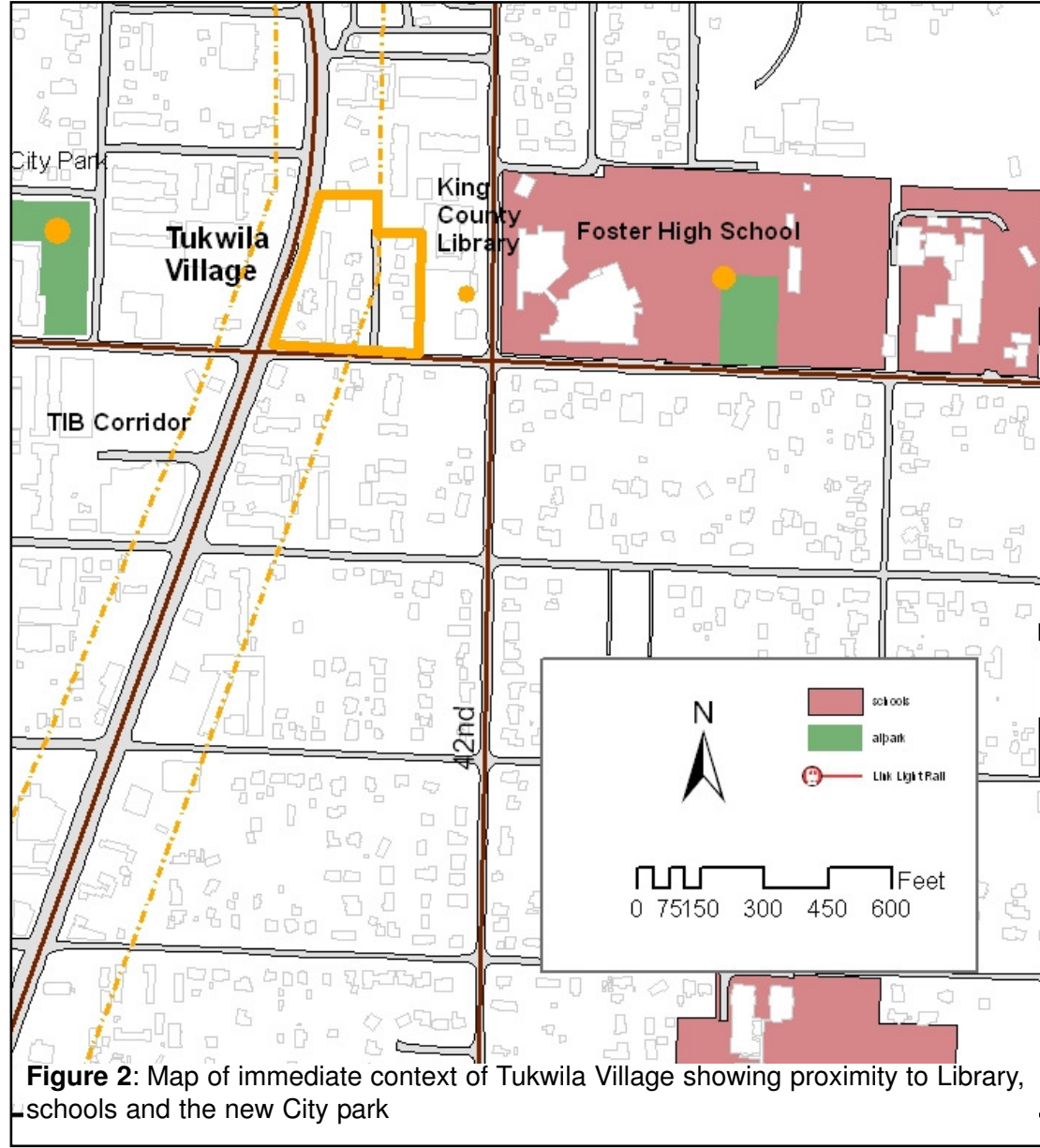
On a more positive note, the City of Tukwila has also taken steps to improve the economic outlook by increasing law enforcement activity, and investing in public infrastructure such as sidewalks, underground utilities, urban services, and education. The Sound Transit Link light rail station can also be expected to stimulate growth, both in the region and adjacent to the station.

These capital improvements have the potential to alter the existing market forces and stimulate private investment in the future.

In addition to the challenges noted above, there are a few notable characteristics of the market study which can help shape the concept for the Tukwila Village site.

- Aging Population - By 2011, the Tukwila population will have aged, with 62% of area households containing people aged 55 and older.
- Shortage of attractive housing - The Gardner Johnson report indicates a shortage of quality rental and for-sale housing in the TIB Corridor. Much of the existing housing stock was built prior to 1985. This can be viewed as both a testament to the weakness of the housing market along the corridor in recent years and an opportunity for market differentiation for new housing products.
- Small office space (under 5000 SF) along the Tukwila International Blvd Corridor commands slightly higher average rents and enjoys a lower vacancy rate.*
- According to the 2000 US Census, the community surrounding Tukwila International Blvd. speaks at least 28 different languages. This wealth of diversity can create a challenge for community organization, but also provides a basis for crafting a unique identity for the district.

The Urban Land Institute *Office Development Handbook* describes *Class A office space* as buildings with "excellent location and access, high quality tenants, and professional management." Buildings are usually high-rise towers located in downtown or financial districts. *Class B space* is defined relative to Class A, usually characterized by less optimum location, wood frame construction, or advanced age. It is unrealistic to expect *Class A* office space in Tukwila at this time.



Area Analysis

The maps in figures 2 and 3 show the geographical relationship between the Tukwila Village site and major locations, landmarks and connecting routes surrounding it. Centers of employment, shopping, freeways, rail lines and major bus routes are included to show how the site connects to its surroundings. The Tukwila portion of the Central Link Light Rail Project is currently under construction. The Tukwila Village site is approximately ½ mile from the South 154th Street Station. While this is too far to make Tukwila Village into a transit-oriented development, the transit stop can anchor the opposite end of the renewed corridor and help encourage redevelopment in between the two projects.

The intersection of Interstates 5 and 405 in the geographic center of Tukwila positions businesses to serve a regional market, but, at the same time, divides the city in four parts. There are relatively few streets that cross over or under the freeways and connect the distinct neighborhoods and amenities of Tukwila. Fortunately, the site is located near at the intersection of two of the main arterial streets, South 144th Street and Tukwila International Boulevard. Major bus routes along these two arterials connect the site to the airport, area destinations and downtown Seattle.

The traditional neighborhood design* is based on creating a center that serves residents within a five-minute-walking radius, (about 1/4 mile). The center must be readily identifiable, public, and contain a mix of services such as schools, civic facilities, and convenience shopping. The location of the schools, library, and the small shopping center on the west side of Tukwila International Boulevard reinforce the site as a location for a neighborhood center.

* For further background on the neighborhood unit, see Clarence Perry's 1929 work, *City Planning for Neighborhood Life*.

Tukwila Village Context

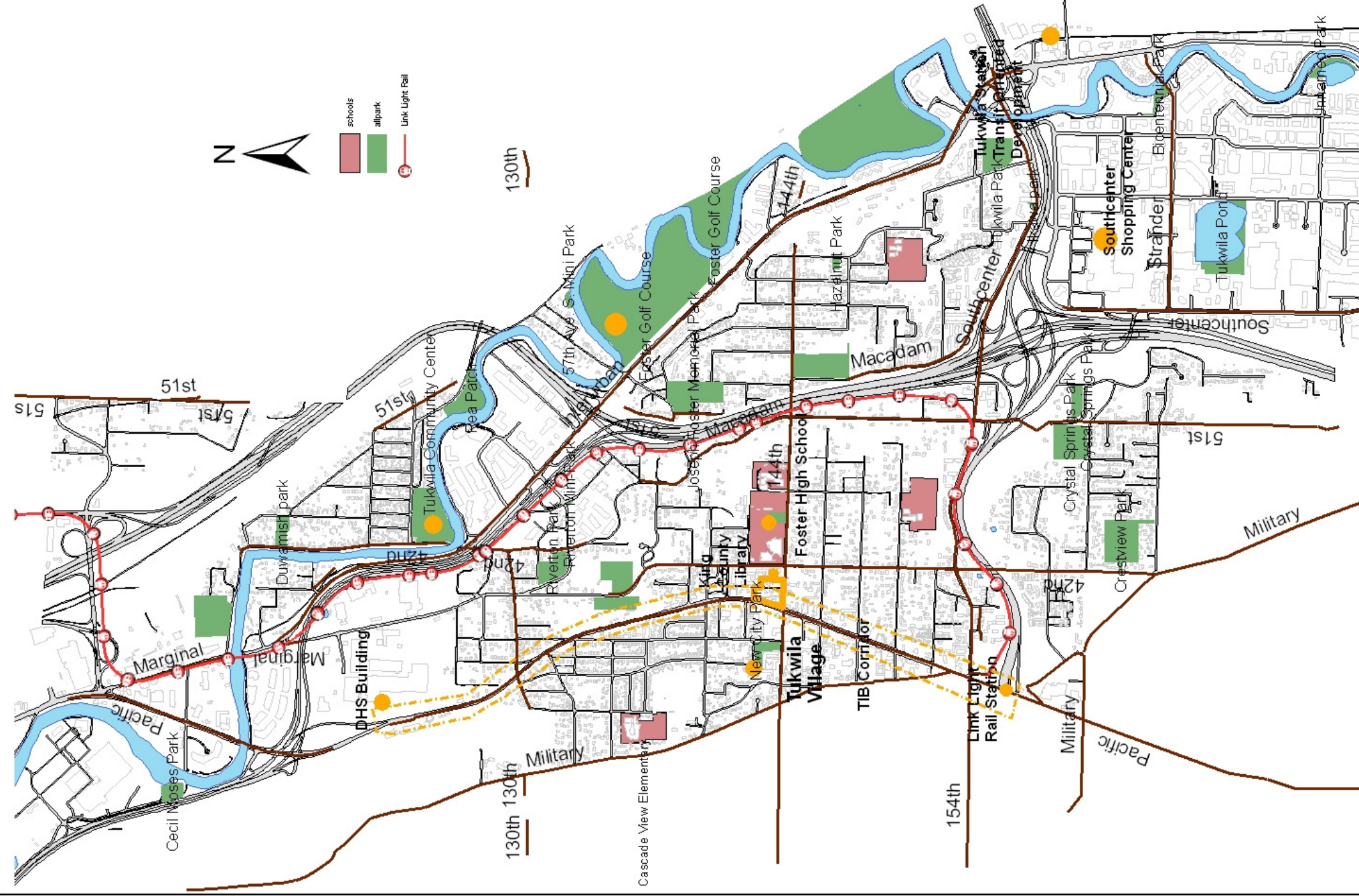


Figure 3: Map of Tukwila Village, TIB Corridor, and surrounding area

Metrovation Place-making Strategy

In locations such as Tukwila, Metrovation blends traditional retail development with "place-making" strategies developed in the public and non-profit sectors. Not only do we focus on the design, construction and leasing of the commercial storefronts, we look at ways to integrate the community by actively managing the public commons, incorporating civic uses, and bringing existing non-profit and social groups into the space.

Fundamental to our strategy is the idea of the third place. Neither home nor work, the third place is where people choose to spend their leisure time in association with their friends and colleagues. The existence of the third place helps unify and revitalize the neighborhood and provides myriad benefits to the residents and users

In order to transform an existing retail center into a vibrant third place, we combine elements of commercial leasing, community organizing, and urban redevelopment strategies. We create a critical mass, reach out to the community, provide a public amenity, and partner with the public sector to create a complete destination that serves a broad range of people.

From a retail perspective, it is important to create the right mix of attractive uses. Each component, whether commercial, civic, residential or recreational, draws a certain number and type of people in a pattern. In a large shopping center, the typical major draws would be national chain stores such as Home Depot or Target, which attract customers from around the region. An appropriate balance of restaurants and complementary retailers would complete the "critical mass" required for a successful destination. However, it is impossible to secure a major anchor tenant of this type for the Tukwila Village site due to the proximity of Southcenter Mall, the surrounding demographics, and the size of the site. Instead, we see the Library, civic uses, and public space comprising the critical mass to attract people who live and work in the surrounding areas.

For further reference, see the Urban Land Institute's *Place Making*, by Charles C. Bohl. or James Howard Kunstler's *The Geography of Nowhere: The Rise and Decline of America's Man-Made Landscape*.



Guggenheim Museum, Bilbao, Spain

neighborhood deserves their attention and stimulates further development, creates a sense of common identity, and fosters collective pride. The Guggenheim Museum in Bilbao, Spain, helped transform a depressed industrial town into an international destination.

Urban Accupuncture

In renewal projects around the world, a single highly-visible project can kick-off the transformation of a neighborhood. "Urban acupuncture" is the term Jaime Lerner, renowned Brazilian architect and urbanist, uses to describe a targeted intervention in urban design of neglected neighborhoods. These may take the form of architecture, public space, or visible public art. The "urban acupuncture" treatment sends a signal to residents and private investors that this



Place Hermite, Crossroads, Bellevue

At Crossroads, Bellevue, Metrovation employed this same technique on a much smaller scale. They installed a 17th Century French fountain and created an elegant plaza around it, even though the center had high vacancy rate and was viewed in a negative light. Now the plaza is right at home in the upgraded center.

In Lake Forest Park Towne Centre, Metrovation helped found a non-profit organization to be the advocate and manager for the public space inside the private development. Friends of Third Place Commons is an independent community stewardship group that actively manages the public space for the benefit of its constituency: the people and businesses that use it. The organization is funded by the City of Lake Forest Park, the merchants of the shopping center, and individuals and groups who use and support the commons.

This unique structure benefits the stakeholders in a variety of ways, drawing support from the community as a whole. Nearby property owners enjoy the increased property value and a sense of ownership of the community gathering place and all are encouraged to participate. Retailers adjacent to the space increase their customer base when people attend community events. Since the gathering place fosters repeat visits, businesses can cultivate a loyal customer base. The City benefits from the decrease in crime, a central and trusted delivery site for services, a location and mechanism for civic outreach and public communication, as well as the economic benefits of an increased tax revenue base. Local non-profit organizations, arts groups, and schools can use performance and meeting space as well as having a platform to grow their networks and meet their goals.

The creation of a community gathering place is a long-term investment which strengthens the social fabric of the neighborhood and, potentially, the entire city. With access to a safe, collective, free public space, a community experiences an increase in education, collective action (such as voter registration, crime watches, and other forms of non-elective democracy), resource-sharing, and creative entrepreneurship. By incorporating a community gathering place with more conventional retail anchors, we expect to both accelerate the transformation of the downtown retail core and ensure its long-term success. While retail trends come and go, community is always an asset.

The City of Lake Forest Park and various agencies in King County provide ongoing financial support for the Friends of Third Place Commons, as well as locating facilities adjacent to the commons. During the aftermath of the winter storms of 2007, the Third Place Commons became the de-facto shelter for people who spent weeks without electricity. It served as a living room, workplace and cell phone charging station for hundreds of Lake Forest Park residents.

One of the keys to the success of the Friends of Third Place Commons organization is the participation of a broad array of community organizations with existing ties to the people in the neighborhood. In order to adapt that success to Tukwila, part of the recommended development plan is to identify and reach out to community groups in the area. Their participation and leadership in activities in the commons is a cornerstone to the eventual success of the development at Tukwila Village and the renewal of the area.



Figure 4: Rendering of concept design.

Development Concept

The Tukwila Village site is well-positioned to serve as a central hub and gathering place for the surrounding neighborhoods. While geography, infrastructure, and distinct separation of uses fragment the City of Tukwila, the site has convenient bus, pedestrian and automobile access to all the major neighborhoods and zones of the City. The challenge of Tukwila Village is to knit the diverse parts of community together to create a sense of place and unifying identity for the City.

We see the Tukwila Village project as a two-step process that will begin the transformation of the Tukwila International Boulevard Corridor. The first step is a public-private partnership to create a destination and amenity on the site: a mixed-used center with the King County Library and a community resource center as the anchors, and a generous public gathering place. The second step is to expand the project to include housing, providing a built-in constituency for the public space and regular customers for the stores.

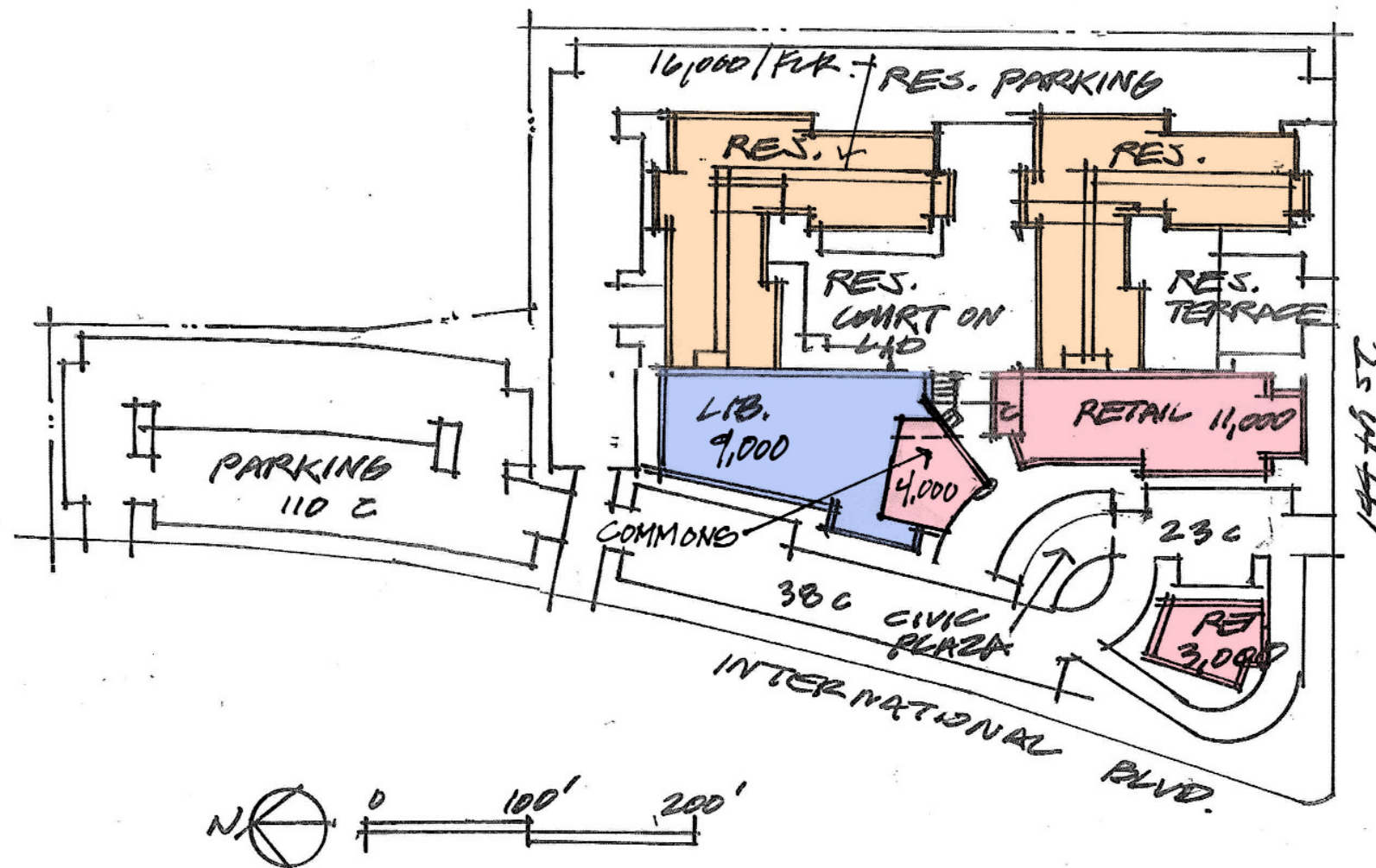
During our design development with the architectural team we tried to incorporate the following elements into the plan:

- Create a site that is of the appropriate scale and density for the surrounding population and current economic factors;
- Concentrate all retail and community activities around a single plaza;
- Plaza should face South and West to maximize natural light and warmth;
- Create a hierarchy of indoor and outdoor public areas that can accommodate a broad scope of community activities;
- Rely on primarily surface lots to meet parking needs;
- Take advantage of the slope to hide residential parking areas;
- Face residential units south to create sunny plaza decks and semi-private open space for the residents, and to maximize potential views of Mt. Rainier;
- Maintain clear sight lines through the entire project to enhance the feeling of safety for residents and visitors alike;

- Separate housing and commercial portions of site to allow for a potential phasing of the residential component as the real estate market develops;
- Create a corner retail pad to partially enclose the plaza. A drive-through may help attract a strong tenant to give substance and credence to the project;
- Keep construction costs low by minimizing elevators and parking structures, and sharing common facilities where possible; and
- Create appropriate visual scale by creating a two-story façade along TIB.

Schematic Plans

The following pages contain schematic plans and renderings of the concept reflecting our design principals. These plans should not be considered as final construction drawings, but rather as a model which shows the configuration and sizes of the uses and public areas. Details such as building rooflines, exact shapes of the buildings, finishes, materials and landscaping, are not shown and can be expected to change depending upon the development chosen for this project and any design guidelines or restriction that the City may include in the sale of the property.

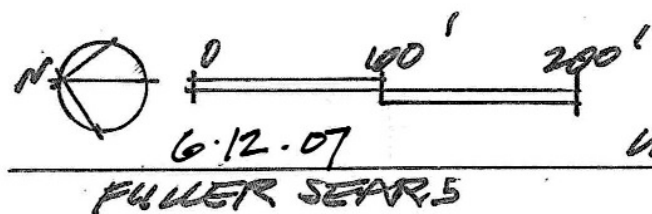
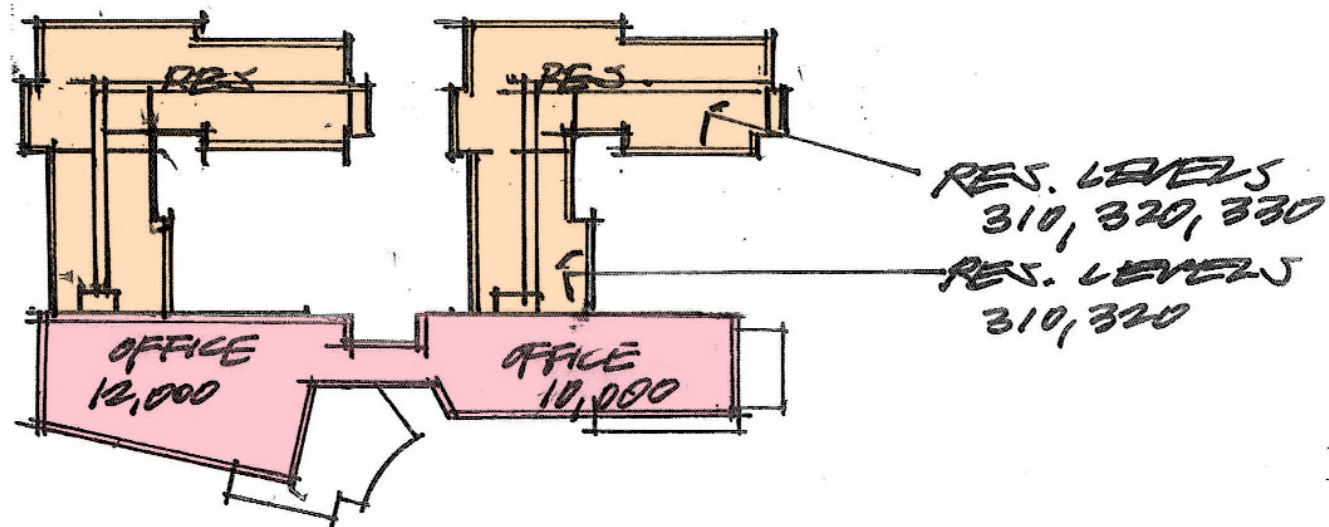


RESIDENTIAL AREAS
TOTAL AREA ~ 128,000 SF
APPROX UNITS ~ 150

COMMERCIAL AREAS
LIBRARY 9,000
RETAIL 14,000
OFFICE 22,000
COMMONS 4,000
TOTAL 49,000

6.12.07
FULLER SEARS

STREET LEVEL SITE DIAGRAM PHASE I & II
TUKWILA VILLAGE REDEVELOPMENT



UPPER LEVEL SITE DIAGRAM PHASE I & II
TURNPIKE VILLAGE METROSTATION

Discussion of Elements

Library

The current Foster Library is too small to serve the number of users adequately, and its present location directly adjacent to Foster High School compromises the user balance necessary to achieve a cohesive and comprehensive mix of patrons. According to the King County Library System, a facility on the range of 9000-1000 SF would allow them to better serve the community.

Office

The second story office space would be ideal for City or community service organizations, community college classrooms, or neighborhood professional services such as, medical/dental offices or real estate agencies. Daytime users maintain a constant presence on the site, support the food and retail uses, and the mix of services adds to the amenity.

Housing

The current design shows approximately 150 units of housing to be built on the East side of the site. We are considering this component to be part of the second phase of development, once the real estate market has acknowledged the amenity created by the adjacent commercial and public space. Adding the residential use develops the site to the density and scale appropriate for its location, takes advantage of the residual land value of the site, making the entire project more economically viable; and provides a built-in customer base for the restaurants and retailers. Additionally, developing new housing in an area that has not seen investment of this type in many years sends a positive signal to other investors.

The Commons

A common space that would serve as a community gathering place would sustain and strengthen the social networks already in place in the area around Tukwila Village. A safe, free and open physical space encourages interactions between and among different groups and fosters a sense of community.

Mix of restaurants and small retail

By using the commons as a casual dining area and sharing restrooms, the size and cost of running a restaurant are much reduced. Locating several different restaurants and neighborhood retail adjacent to the commons creates a combined attraction to shoppers and diners that surpasses the sum of the individual parts. The amenity of the combination adds value to the residential component as well as spurring additional development in the neighborhood.

Financial Analysis

There are a number of ways to approach the financial analysis of a project like this. As a development consultant, we are primarily focusing on the pro forma financial model which is used by developers and lending institutions to evaluate the financial feasibility and profitability of a potential development for the investors. However, the two primary partners in this development, the City of Tukwila and the King County Library System, use vastly different mechanisms for assessing the costs and benefits of a project rather than just tracking the flow of money. The Library is focused on serving its patrons, improving the complete system, and creating an appropriate user mix on the site. The City government will probably use an even more comprehensive concept of value, including quantifiable aspects such as job creation, enhanced tax revenue, or increased stability of the population as well as non-quantifiables such as “feeling safe in the neighborhood”, or regional positioning of Tukwila relative to other cities such as Renton and Burien.

Based on the Gardner Johnson market analysis, discussions with City staff, local residential developers, and our internal advisors, we developed a baseline pro forma model to illustrate the financial component of the cost-benefit assessment. This is not a prediction of what the sales price for the land will be, the type of housing that should be built, or a definitive statement of what lease income will be. The model helps to illustrate the financial trade-offs between lease rates, construction costs, land purchase price, and market timing that a developer of this site will have to consider.

We assumed that all residential on the site will be condominiums. The City has expressed a strong interest in ownership housing, so we used the Gardner-Johnson market analysis to predict sales prices and absorption rates.* Although we anticipate the gathering place and commercial development to increase the value of the residential, real estate markets do not shift overnight.

*Absorption rate is the estimated number of units that will be sold per unit time, generally expressed as sales/month or sales/year. For financing of condominium developments, banks usually require a certain percentage of the units be sold before the construction loan is approved.

While there are no directly comparable products in the TIB Corridor, Gardner Johnson estimated the sales prices to range from \$160,000 to \$250,000 per unit with absorption into the market of approximately fifty units per year.

Commercial Lease rates range from \$20-\$25/sf/year not including utilities, maintenance, or taxes (triple net basis).

We are also calculating that the approximately 4,000 SF indoor common area will earn rent for the project. We envision this ongoing cost as being split between the City, the developer, the King County Library System, and the public advocacy organization that manages it, which should be able to garner support from the general public.

The current office lease rates range from \$18-\$24/sf/year in this area, depending upon building quality, location and surrounding amenities. A community college would be able to pay the lower end of the range and we anticipate that the City would pay toward the top of that range for any office space it leases.

The question of the sales price for the land has arisen in several discussions and public meetings. Since the City is paying for the property through its bonding capacity, both citizens and council members feel that the City should try to maximize the benefit received for the land. However, there are tradeoffs between the price received for the land and any conditions/restrictions the City will place on the land to maximize other types of public benefit (such as controlling for market-rate ownership or restricting the types of businesses that could be placed on site). For the purposes of these calculations, we used \$12/SF as a baseline price.

In addition, we assumed that the developer will not have to pay offsite costs such as water or sewer line/capacity extensions, street improvements, etc. Nor did we anticipate any major environmental impacts from the development to slow down the project; a complete EIS will not be necessary.

Tukwila Village Residential							
			sales begin	absorbtion rate	months to sell out		
Total Unit Count		150	May-2009	5	30		
Unit Types		# units	SF/unit	Total SF	Sales Price/Unit	Price/ft	Total Sales Price
Studio	10%	14	500	7,000	\$ 165,000	\$ 330	\$ 2,310,000
1 BR	40%	60	650	39,000	\$ 190,000	\$ 292	\$ 11,400,000
2 BR	35%	53	875	46,375	\$ 225,000	\$ 257	\$ 11,925,000
3 BR	15%	23	1,100	25,300	\$ 265,000	\$ 241	\$ 6,095,000
Net Area		150		117,675		\$ 270	\$ 31,730,000
Common areas		10%	117,675	11,768			
Gross Area				129,443			
Phase 1 costs							
Land purchase cost		PSFcost	\$ 12	92000			\$ 1,104,000
Site Prep		\$9.00	92,000				\$828,000
Platform/Deck Costs		\$20	56,000				\$1,120,000
Construction Cost		\$ 120	129,443				\$ 15,533,100
Sales Tax		8.80%	\$ 15,533,100				\$ 1,366,913
Contingency (inc. tax)		10%	\$ 16,900,013				\$ 1,690,001
FFE and appliances per unit			\$ 1,200	per unit	150 units		\$ 180,000
Total Construction			\$ 138,120	per unit	\$ 160 PSF		\$ 20,718,014
Soft Costs							
Architecture/Engineering		6.50%	of	construction costs			\$ 1,009,652
Permitting		2%	of	construction costs			\$ 310,662
Utility and communications			\$ 2,500	per unit			\$ 375,000
Construction Insurance							\$ 180,000
Condo Wrap Insurance			\$ 8,000	per unit			\$ 1,200,000
Marketing			\$ 3,000	per unit			\$ 450,000
Misc Soft Costs							\$ 100,000
Loan Fees		2%	of const.	\$ 20,718,014			\$ 414,360
Legal Expenses							\$ 100,000
Construction and Sales interest							\$ 2,071,801
Commissions/Concession		3%	of total sales price				\$ 951,900
Developer fees		6%	of project basis		\$ 24,095,228		\$ 1,445,714
Soft Cost Total							\$ 8,609,089
Total Cost							\$ 30,431,103
Gross Sales							\$ 31,730,000
Margin							\$ 1,298,897

Figure 5: Residential pro forma analysis of the Tukwila Village site.

Tukwila Village Commercial Analysis					
		acres			
Site Area		92000 SF			
Commercial Lease Income			NNN Lease		yearly income
Library		9000 SF	\$	22	\$ 198,000
Retail		11000 SF	\$	24	\$ 264,000
Corner Retail		3000 SF	\$	28	\$ 84,000
Office		21000 SF	\$	20	\$ 420,000
Common Areas		4000 SF	\$	20	\$ 80,000
Total		48000 SF			\$ 1,046,000
Commercial Expenses					
Library Vacancy		0%			\$ -
Retail Vacancy		6%			\$ (15,840)
Office Vacancy		6%			\$ (25,200)
Miscellaneous expenses		1% of	\$ 1,046,000		\$ (10,460)
Management fee		4% of	\$ 994,500		\$ (39,780)
Commercial Net Operating Income					\$ 954,720
Land Acquisition Costs		92000 SF	PSF	12	\$ 1,104,000
Construction Costs					
Offsite		92000 SF		\$0.00	\$0
Site Work		92000 SF		\$9.00	\$828,000
Corner Pad Buildout		3000		160	\$480,000
Library		9000		150	\$1,350,000
Retail Buildout		11000		130	\$1,430,000
"Commons Buildout"		4000		130	\$520,000
2nd Floor Office		21000		150	\$3,150,000
Construction Total					\$7,758,000
Contingency	\$7,758,000	10%			\$775,800
Sales Tax				8.90%	\$759,508
Total Construction					\$9,293,308
Soft Costs					
A and E Commercial	\$7,758,000	basis		7.0%	\$543,060
Permits	\$7,758,000	basis		2.0%	\$155,160
Development Fee	\$10,287,060	basis		5.0%	\$514,353
Loan fees				1.5%	\$184,388
Construction Interest	\$9,293,308			5.0%	\$464,665
Tenant Improvements Retail	14000		\$	30.00	\$420,000
Tenant Improvements Office	21000		\$	22.00	\$462,000
Commons Area Improvements	3000		\$	30.00	\$90,000
Leasing Commissions					\$100,000
Misc					\$250,000
Total Soft					\$3,183,627
Total Project Costs					\$13,580,935
Estimated capitalized value Year 1				7.50%	\$ 12,729,600

Figure 6: Commercial pro forma analysis of Tukwila Village, based on current market conditions and assumptions about costs.

Discussion of Financial Analysis

The pro forma analyses in Figures 5 and 6 show that the returns on private investment for this project are insufficient to attract a developer using conventional financing under current market conditions. This situation is illustrated graphically in Figure 7. To make the project more attractive to private investors, either the cost to the developer must be reduced, or the financial benefit must be increased. There are a variety of mechanisms by which the City and the developer can accomplish this shift. We have listed some of them in this report, but there will certainly be other creative solutions.

Construction costs have increased dramatically over the last few years due to rising energy costs, component manufacturing capacity and competition for raw materials by the dynamic economies of the developing world. In recent projects, the hard costs for construction have risen 30%-40% over the course of development. In addition, condominium developments require a special "wrap" insurance to cover the builder's risk of class-action suits by homeowners associations. In Washington State, this usually ranges from \$5000-\$10,000 per unit. This high and uncertain cost of construction requires high sales prices to mitigate the risk. As shown in the pro forma calculation, current prices in Tukwila are too low to balance the risk. Based on the current market sales data and construction costs, the developer can expect to break even or lose money on the project.

Since construction costs are unlikely to fall, the most likely mechanism to attract residential development is through increasing the sales prices by influencing the market -- no small task. However, living in the City of Tukwila is a relatively good value in terms of proximity to employment centers and transportation hubs, cost of housing, quality of public services and infrastructure, and access to natural amenities. In order to increase the perceived value of the housing, raise the sales price, and attract private investment, the benefits of Tukwila must be communicated effectively.

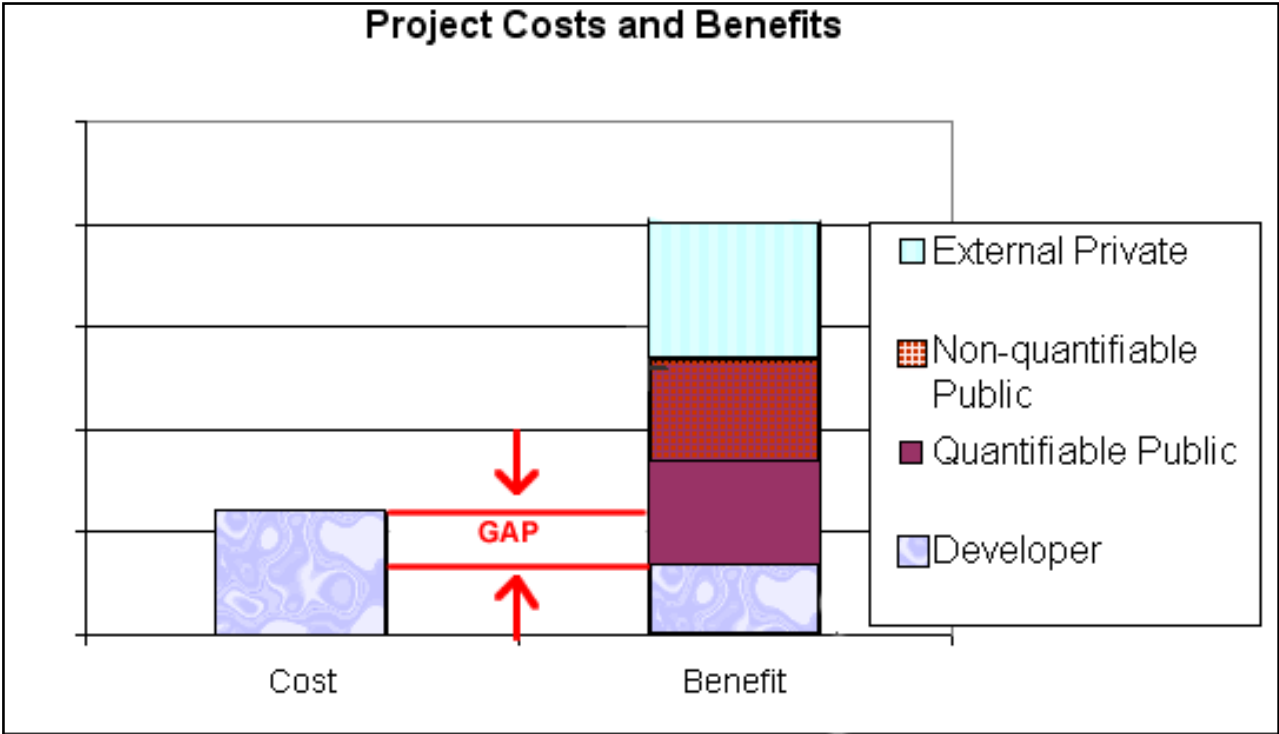


Figure 7: Private financing gap between cost and benefits to developer and external benefits to other parties.

Once the "pioneering project" and combined promotional efforts have changed the public perception of the location, and the market has responded with higher sales prices and lower vacancies, there is a greater likelihood of private investment. The Tukwila Village development should be considered in the context of a comprehensive plan of renewal, not as an isolated real estate deal.

In order to reduce the risk and ease the path of the pioneering development at Tukwila Village, we suggest a number of mechanisms for public participation. Many of these mechanisms are low, or no cost to the City, but they help increase the value of the project far beyond their actual cost. By combining enough of these measures the project can be made attractive enough to stimulate private investment and move forward.

Possible actions that the City can take to reduce/distribute risk of development and strengthen the community surrounding the Tukwila Village development site:

- Implementation of a marketing and public relations campaign to effectively communicate the advantages of the City of Tukwila using this project as an example of the positive changes taking place. The negative image of the area relative to the actual conditions requires a coordinated campaign to promote a positive identity for Tukwila, focusing on the Tukwila International Boulevard Corridor. This promotional effort can focus on the positive features of Tukwila, as well as using the "Urban Acupuncture" technique to focus energy and attention on underserved areas with the goal of transforming them. As this project develops, there will be ample opportunity to promote its success as an indication that Tukwila is entering a phase of growth.
- It may be necessary to widen 144th Street and add a center turn lane for access to Tukwila Village. It is believed that there are capital funds already allocated to street improvements along this corridor.
- Additional curb cuts and sidewalks necessary for Tukwila Village can be incorporated into capital improvement budget.

- Flexible zoning. The City can take a pro-active role in enabling small variations in the zoning code to promote this development such as permitting an appropriate drive-through use if it attracts the right tenant, or adjusting setbacks, height limits, etc. to accommodate the right scale and type of development.

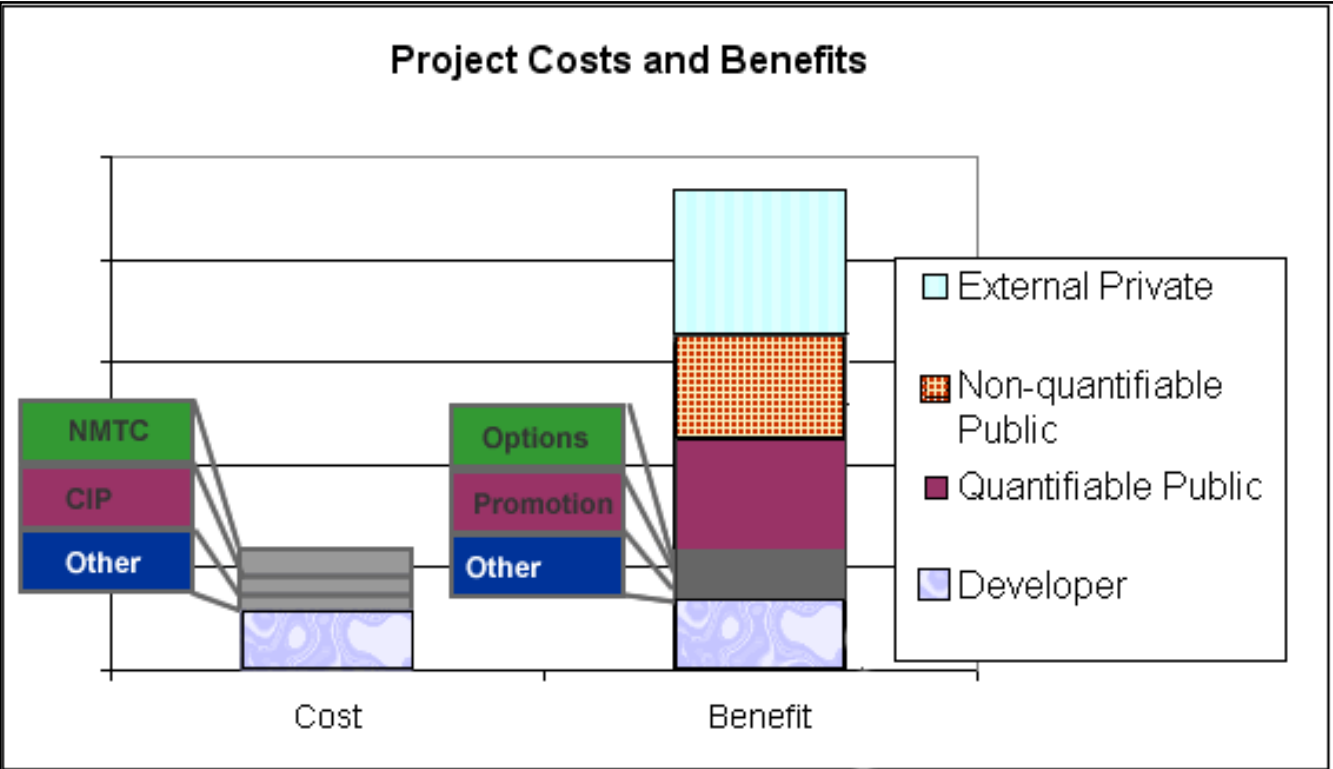


Figure 8: Mechanisms to shift the balance of costs and benefits include New Market Tax Credits (NMTC, see appendix D), capital improvements plan (CIP), aggressive promotion of the project, and purchase options on adjacent properties.

- In order to mitigate and treat surface water on site using alternative technologies, the developer may be eligible for grant funding or other support. The City will play an active role in supporting and encouraging a holistic and pragmatic approach to "green development".
- Agreeing on an appropriate sales price and financing plan with the developer to meet bank loan needs and enable the project to move forward.
- Green design support through administrative and infrastructure costs incentives.
- Lease guarantees/master leasing of office space will enable private financing.
- Supporting community commons operating budget by in kind staff contribution, event funding, or direct contributions to the management of the commons.
- Leasing portion of site for offices/municipal services that serve community such as a Neighborhood Service Center or something like the "mini city hall" in Appendix A.
- Additional commitment to expand project if it is successful by offering developer appropriate purchase options on neighboring parcels or helping to assemble land for a second phase development.
- Assist in community outreach to nonprofit and neighborhood groups that are active in the area.
- Pass some sort of multifamily tax exemption as provided for under RCW Section 84.14 to stimulate appropriate residential development in the corridor
- Provide assistance to non-profits who want to locate on the site through rent assistance, in-kind support, or sublease arrangements (see example of Mercado Central in Appendix B).
- Expedite planning and permitting process to reduce holding costs on land, or structure closing of land sale to minimize financing costs.

Many of these items are coordination of existing City government roles, or focusing programs and resources which do not require additional expenditures, but can mitigate some of the risk of developing the Tukwila Village site.

"Time kills all deals," is a well-known saying in the development community, meaning that a given project on a given site has a finite window of opportunity. Rising costs, competition from other projects, changes in the market, and the economics and logistics of extending deadlines repeatedly can make a favorable project into an unfavorable one. As it stands, this project is marginally feasible, and the erosion of feasibility through rising costs over time will only make it less so. Without a clear vision and commitment from the City, the window of opportunity for this project could expire.

Appendix A: Mini City Hall, Crossroads Shopping Center

History

Initially, in 1997, the Mini City Hall started out of a community survey which reported that people wanted to speak with a city representative in person about city issues. Respondents said that the official City Hall was either too distant or intimidating. The Mini City Hall was established with a general mandate from citizens to be present and helpful. Eventually, programs and partners emerged by listening and responding to visitors' needs and concerns. In the beginning, marketing its presence and services was very important to get the word out, particularly to niche ethnic groups. Ten years later, factors like the location, visitor word-of-mouth to family and friends, as well as bilingual volunteers spread the word.

The Mini City Hall keeps a database of questions that staff and volunteers encounter as well as how many people are served daily. The data are tracked and compared with trends in the City as a whole, and reported to the City Council on a regular basis.

About 30% of the services are regarding official city programs with remaining efforts focusing on linking citizens to existing community resources. Non-city programs about which visitors can receive information/help include senior services, housing, schools, opportunities for volunteering, starting a business, and ESL classes. Partners that have existing programs with Mini City Hall include: Bellevue Community College, Bellevue Fire Department, Crossroads Shopping Center, Overlake Hospital. To deal with the huge diversity in languages spoken by the constituents, Mini City Hall has a dual language phone that allows instant translation between two people who come in to understand one another.

Services

What can people do at Mini City Hall?

- Pay utility bills
- Receive information, referrals to city programs & services. Understand more clearly municipal laws (i.e., zoning, etc.)

- Receive assistance regarding "helping programs" (i.e., help with financial aid for utility payments, etc.)
- Receive assistance/information regarding programs not related to the city (shelters, after-school programs, child-care information, etc.)
- Receive job counseling from professional holding hours at Mini City Hall
- Receive referrals to Bellevue Entrepreneurial Services
- Utilize mini-food bank held at the site

Basics

- Hours: Monday - Saturday, 10am - 6:00pm
- Staff: 1 full-time, 2 part-time, 15 volunteers (mostly bilingual)
- Approximately 60-100 people visit the City Hall everyday.
- Currently, the Mini City Hall has about 15 active partners in the community that maintain existing programs. The Mini City Hall maintains approximately 100 partners on a lesser level.
- FT employee's responsibilities include: a) training volunteers, b) creating and maintaining relationships around the community, c) understand current gaps in community resources.

Funding

The Mini City Hall represents a program out of the outreach department from City of Bellevue. Everything is billed through that department. Expenses of Mini City Hall: rent, utilities, salaries, equipment, infrastructure, maintenance, office supplies, staff, computers, IT technical support.

Keys to Success

- Single greatest key to success is location. Being in a community gathering place that people are already using (rather than being an isolated entity) brings people to the location and encourages ready-made partnerships with community organizations.

- Another component to its success is the breadth of knowledge that volunteers and staff accumulate about area resources. Bilingual volunteers draw their own niche customers based on the particular language they speak.
- Overall, the Mini City Hall thrives because of trust and lasting relationships. There is no volunteer who has worked at Mini City Hall for less than one year (several have been volunteering for over five years). A testament to success is the number of repeat customers as well as the transformation of customers into volunteers.

Advice for newly-established Mini City Hall

- 1) Start out with understanding community needs. Come up with possible solutions and, from that, find out how Mini City Hall can aid in bringing those solutions to community.
- 2) Don't have preconceived notions of needs and the community itself.
- 3) Be responsive.
- 4) Adopt laid back approach to meaning of success (let it come organically). It's about quality, not quantity.
- 5) Measurement of time to recognize progress for Mini City Hall exceeds the length of a one-year pilot program. In five years, the program should be a success or needs to be re-examined.
- 6) Success boils down to trust and strong relationships.

Additional notes

- As the services of Mini City Hall are increasingly relied upon, need increases. Additionally, citizen needs become more complex. Accordingly, present and future needs can be better served with increase in paid staff. Now, the City Hall serves mainly to make appropriate connections between people and services rather than, say, create new programs.

- A police substation also exists at Crossroads. The two entities, however, serve different purposes. The same question from a citizen would get two different responses from the two different establishments. Additionally, there exists a different image particularly for new immigrants between the two places. Mini City Hall provides human services and a lot more (like for emerging small businesses) whereas the police substation serves very specific purposes.
- Components that are important for staff and volunteers: communication skills, concierge demeanor. Training: intern process, close work with full-time employee, 3-4 months of training. Commitment of one year. Every volunteer Mini City Hall has been there for more than one year.
- For more information on other regional Mini City Halls, contact Cheryl Kuhn (425)452-4089.

Appendix B: Minneapolis Mercado Central

Excerpted and adapted from "We Create White Center", a report by the University of Washington School of Urban Design and Planning in partnership with White Center Community Development - the full report is available at:

http://courses.washington.edu/wcstudio/White_Center/White_Center_Neighborhood_Action_Plan.pdf

The Minneapolis Mercado Central, a Latino market, is a popular place for this kind of cultural exchange. People from other neighborhoods and ethnicities regularly visit the Mercado Central to experience authentic Latino culture. In addition to its stalls with food and crafts, the market also hosts public events such as dances, concerts, and festivals. The Mercado Central provides opportunities for cross-cultural interaction and showcases successful Latino businesses. It has become a regionally-recognized destination, and contributed immensely to the identity of the neighborhood in which it is located. An international marketplace can create a regional destination that showcases the community's multi-cultural assets.

In addition to promoting a positive identity, an international marketplace could increase civic engagement by serving as an outlet for community resources. The Minneapolis Mercado Central, for example, regularly hosts public forums of particular interest to immigrant communities. It also serves as a distribution point for voter education materials and immigration information. Because the co-operative marketplace would provide opportunities for new entrepreneurs to launch businesses at a very low cost, and because many of recent immigrants come from countries where small-scale entrepreneurialism is an integral part of the culture, this concept helps new immigrant populations adapt and adjust to local conditions. Finally, an international market could strengthen the neighborhood's local economy. The market could serve as a small business incubator where new small-scale

businesses are nurtured and provided the resources and services needed to flourish. As businesses in the marketplace expand, they would be encouraged to relocate to larger storefronts in the neighborhood, keeping retail local, providing new opportunities for local employment, and creating a safer and more vibrant downtown. New businesses would then be recruited to join the co-operative.



Figure 10: Shoppers and merchants at Minneapolis' Mercado Central which features a traditional Latin American style market environment

Appendix C: Sample Rental Pro Forma

Tukwila Village Residential							
				Average Rental Rate			
Total Unit Count		150		\$ 1.20	per SF		
Unit Types		# units	SF/unit	Total SF	Rental Rate		Annual Gross Income
Studio	20%	30	500	15,000	\$ 600	per mo	\$ 216,000
1 BR	40%	60	650	39,000	\$ 780	per mo	\$ 561,600
2 BR	30%	45	875	39,375	\$ 900	per mo	\$ 486,000
3 BR	10%	15	1,000	15,000	\$ 1,000	per mo	\$ 180,000
Net Area		150		108,375			\$ 1,443,600
Common areas		10%	108,375	10,838			
Gross Area				119,213			
Operating Expenses		35.00%	1,443,600				\$ 505,260
Net Operating Income							\$ 938,340
Hard Costs							
Land purchase cost		PSFcost	\$ 12	120000			\$ 1,440,000
Site Prep		\$9.00	120,000				\$1,080,000
Platform/Deck Costs		\$20	56,000				\$1,120,000
Construction Cost		\$ 85	119,213				\$ 10,133,063
Sales Tax		8.80%	\$ 10,133,063				\$ 891,710
Contingency (inc. tax)		10%	\$ 11,024,772				\$ 1,102,477
FFE and appliances per unit			\$ 800	per unit	150	units	\$ 120,000
Total Construction			\$ 96,315	per unit	\$ 121	PSF	\$ 14,447,249
Soft Costs							
Architecture/Engineering		6.00%	of	construction costs			\$ 607,984
Permitting		2%	of	construction costs			\$ 202,661
Utility and communications			\$ 2,500	per unit			\$ 375,000
Construction Insurance							\$ 150,000
Condo Wrap Insurance				per unit			\$ -
Marketing				per unit			\$ -
Misc Soft Costs							\$ 100,000
Loan Fees		2%	of const.	\$ 14,447,249			\$ 288,945
Legal Expenses							\$ 80,000
Construction and Lease up interest							\$ 433,417
Leasing costs		10%	of annual rent				\$ 144,360
Developer fees		6%	of project basis		\$ 16,027,254		\$ 961,635
Soft Cost Total							\$ 3,344,003
Total Cost							\$ 19,231,252
Capitalized Value of Project					7.50%		\$ 12,511,200
Margin							\$ (6,720,052)
Potential Savings from New Market Tax Credits					30.00%		\$ 5,769,376
Margin after NMTC							-\$950,676

Rental pro forma analysis of the Tukwila Village site featuring New Market Tax Credit equity.

The pro forma at the left shows a sample apartment scenario. The mix of units is changed to reflect a more typical configuration for apartments. While the current market rents are below the pro forma rents shown, the amenity created by the commercial and community spaces can be expected to boost rental rates at this development.

It should also be noted that this analysis also shows a gap between cost and value at the 7.5% capitalization rate. Additionally, this scenario relies on the availability of New Market Tax Credits to provide some of the equity of the project. The actual financial analysis and evaluation of returns on investment will be considerably more complex.

An additional advantage of apartments over condominiums not reflected in this analysis is the fact that rents will escalate over time. The developer will be able to capture that increased value eventually, whereas condominiums are sold at their lowest value. Also capitalization rates for projects in Tukwila should continue to decline as the area improves, and the potential sale price of this project will consequently increase.

Passage of a multi-family housing tax exemption could further reduce risk for both rental and for-sale housing.

Appendix D: New Market Tax Credits

The New Market Tax Credit (NMTC) program is a component of the Federal “Community Renewal Tax Relief Act of 2000” designed to spur development in lower income communities across the country. The NMTC program offers 39% tax credits to investors in qualified projects in communities with a median income less than 80% of area median incomes. Historically, these communities have been overlooked by developers who see the potential returns as too small to warrant the risk of capital, leaving residents with continued decline of housing stock and reduced access to commercial services and employment opportunities. The Tukwila International Boulevard Corridor would likely qualify based on the the 2000 Census data and interim surveys.

Generally, the tax credits are allocated to a community development entity which sells them to an investor with substantial tax liability, such as a bank, to fund the equity portion of their development project. The tax credits are taken over the course of 7 years, so the present value is close to 30% of the project cost..

Residential-only projects are not eligible for NMTC, but rental housing as part of a mixed-use project can qualify. Because the tax credits are spread over the course of 7 years of the ownership structure, condominiums don’t work. However, some developers have chosen to operate the residential as apartments for the 7-year tax credit period, then convert them to condominiums to capture the full value of the project.

The complexity, constraints and relatively low benefits of the NTMTC program have discouraged many developers from participating. In contrast the the Low Income Housing Tax Credits upon which the NMTC are modeled, offer 70% of the value as tax credits and have lower administration requirements. However, the New Markets Tax Credits can make a marginal project into an attractive one, given the right set of circumstances.

For further information, consult
<http://www.newmarketstaxcreditcoalition.org/>
<http://www.cdfifund.gov/>
http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5